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Openness, Inequality and Poverty in Africa

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Abstract

This paper explores the relationships between openness, poverty and inequality in Africa. The analysis begins with a review of social development on the continent since 1980, followed by a discussion of openness and a lengthy exploration of the patterns of trade and finance that link Africa to the rest of the world. The macroeconomic policy framework that guided African policymaking over the last three decades is the lens through which poverty and inequality are further examined. The paper highlights the major factors underpinning openness and social development, and concludes with policy.

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Openness, Inequality and Poverty in Africa

Alemayehu Geda[1]

For Africa, it is not yet clear if globalisation, defined as increased openness to trade and financial flows, will improve social development and equity or lead to rising inequality and poverty on the continent. This paper contributes to this discourse by exploring the relationships between openness, poverty and inequality in Africa. The analysis begins with a review of social development over the last two decades of the twentieth century and details the progress various African countries and regions have made toward attaining a spectrum of policy goals. This section is followed by a discussion of openness and a lengthy exploration of the patterns of trade and finance, since these are the main channels linking Africa to the rest of the world. The macroeconomic policy framework that guided African policymaking over the last three decades is the lens through which poverty and inequality are further examined. The paper highlights the major factors underpinning openness and social development, and concludes with policy recommendations that may help abate destitution and inequity.

Social progress in Africa in the 1990s[2]

Improving health, education, employment, and equality have been long-term, as well as recent United Nations Millennium Development Goals (MDGs) for Africa. Over the past few decades, the lessons learned, statistics, and data that have accrued now inform the debate on social development policy.

Comparative data from the 1990s show that human development is highly correlated with the status of and access to education and healthcare (see Table 1). Table 1 also confirms a decline in illiteracy rates by nearly half since 1990. Gender disparity however, remained largely unchanged. Encouraging results were also recorded for gross enrolment ratios and infant mortality rates, in which North Africa, followed by Eastern and then Southern Africa, showed relatively improved performance.

Except for Botswana, Mauritius and Seychelles, poverty appears pervasive in the Eastern and Southern African sub-regions (ESA), where an estimated 50 per cent live below the poverty line. In the Central and West African (CWA) sub-region, the dire economic situation severely affects the most disadvantaged segments of society, particularly in rural areas. Poverty incidence is lower in North Africa (NA), where approximately 22 per cent of the population live below the poverty line.

Though most African nations deplored the negative impact of structural adjustment programs on the poor, these countries appear to have accepted structural reforms as necessary for and indispensable to sustainable growth. Such reforms were meant to incorporate poverty reduction strategies as a central element of a long-term economic development vision. This was to be accomplished by allocating resources to sectors that would have the greatest impact on poverty reduction. A number of countries increased their budget-

1 I would like to thank two graduate students of the Department of Economics, Addis Ababa University, Dawit Berhanu and Melesse Menale, for excellent research assistance, and my friend Abebe Shimeless for excellent input and comments. Any remaining errors are mine.

2 This section is based on Alemayehu (2000).

Table 1.
Progress on social development in Africa in the 1990s: Selected indicators

	1990		1995		1997		1998		2000		2001	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Illiterates as share of 15+ population by gender (per cent)												
Eastern & Southern Africa	55.3	35.8	49.2	31.3	46.7	29.7	45.5	28.9	43	27.2	41.8	26.5
North Africa	65.1	38.8	58.9	34.3	56.4	32.6	55.2	31.8	52.8	30.2	51.6	29.5
West Africa	67.2	46.4	59.7	40.3	56.7	37.9	55.1	36.7	52.1	34.4	50.6	33.4
Sub-Saharan Africa	60	40	53.4	34.9	50.7	33	49.3	32	46.7	30.1	45.4	29.3
All Africa	61	39.8	54.5	34.8	51.9	32.9	50.5	32	47.9	30.1	46.6	29.3
Gross Enrolment Ratio (per cent)												
Eastern & Southern Africa	73.9	78.6	74.6	79.9	74.1	79.5	82.5	87.8	88.9	94.3		
North Africa	91.4	99.8	99.9	106.9	100.9	107.7	101.9	107.0	102.5	107.3		
West Africa	75.3	86.6	77.2	86.5	72.9	81.3	.	.	.	.		
Sub-Saharan Africa	74.4	81.8	75.7	82.6	73.6	80.2	79.2	85.5	.	.		
All Africa	77.6	85.1	80.0	86.9	78.5	85.1	84.2	90.1	89.3	95.3		
Infant Mortality (per 1000 live births)												
	1990		1995		1997		2000					
Eastern & Southern Africa	105.9		98.5		94.8		92.0					
North Africa	59.4		48.4		43.6		39.4					
West Africa	97.6		91.8		89.3		90.0					
Sub-Saharan Africa	102.5		95.8		92.6		91.2					
All Africa	96.7		90.0		86.8		85.3					

Source: Computations based on World Bank (2003a).

ary allocations to the education and health sectors, and accordingly, have reported tangible progress. For instance, gross enrolment rates at the primary level have increased while gender gaps somewhat narrowed (see Table 1). Other countries moved forward by focusing on the HIV/AIDS pandemic and the mitigation of high maternal mortality rates and the major childhood diseases responsible for high infant and under-five (U5MR) mortality rates (see Table 1). Some countries have achieved almost universal access to basic health services. Finally, all countries in the sub-regions have taken steps to bolster employment, especially for vulnerable groups, though unemployment rates in urban areas remain disproportionately high.

In addition, good governance has also been identified as a pre-requisite for socio-political and economic development. Almost all countries have reported significant improvements in governance structures and modalities in working towards peace, stability and security. This is complemented by forums such as NEPAD (New Partnership for Africa's Development), which addresses governance through various means, including a peer-review mechanism among African leaders.

Given the pervasiveness of poverty and social under-development in Africa, these improvements are inadequate. It is therefore relevant to ask whether there are special features specific to Africa that can help explain the massive poverty and inequality that engulf the continent. Some of the elements that may help explicate Africa's severe under-development include; (1) weak initial conditions (such as ailing institutions

and human capital, and an extractive and lingering colonial history) at the time of independence; (2) the dependence of almost all African countries on primary commodity production and trade; (3) the lack of non-aid financial capital and the alarming level of aid-dependency; (4) the lack of ownership of policies that are invariably imposed on Africa by donors; and (5) the prevalence of conflict and poor governance. The rest of this study is devoted to an in-depth examination of these issues in the context of globalisation.

Recent patterns of openness, inequality and poverty in Africa

Recent literature has emphasized the theory that trade policy strongly impacts growth. Dollar (1992), Ben-David (1993), Sachs and Warner (1995), and Frankel and Romer (1999), using different measures of openness, noted that openness is significantly and positively associated with economic growth. This assertion however, is not without its critics (see below, for instance, Rodriguez and Rodrik (2000). Dixit (1988) and Calvo (1987, 1988) have also contested the conclusions of the afro-mentioned studies (Collier and Gunning, 1996).

Rodrik's various works questioned the uncritical acceptance of the importance of openness (see Rodrik, 1992, 1999, 2001). He debated whether the measures of openness used in the influential articles cited above focused solely on trade policy issues. In Rodriguez and Rodrik (2000), the authors made it abundantly clear that the openness measures used in much of the empirical literature did not really select trade policy indicators as such. Therefore, the finding that openness matters for growth could be spurious.

Rodriguez and Rodrik (2000), after critically examining the main finding of these influential pro-openness studies, noted that this literature is largely uninformative regarding the question of "do countries with lower policy-induced barriers to international trade grow faster once other relevant country characteristics are controlled for?" They noted that there is a significant gap between the message that the consumers of this literature (including multilateral institutions) have derived from it and the 'facts' that the literature actually demonstrates. This gap emerged from; (1) the researchers use of 'openness' indicators that serve as poor measures of trade barriers or are highly correlated with other sources of bad economic performance; and (2) the methods or empirical strategies used to ascertain the link between trade policy and growth; these methods have serious shortcomings, and their removal results in significantly weaker findings.

The main point made by Rodriguez and Rodrik (2000) is that some of the commonly used openness indicators serve as a proxy for a wide range of policy and institutional differences, and they can give biased results that do not properly evaluate the effect of trade policies on growth. The authors however, were in no way suggesting pursuing trade restrictions. They underscored that, "what we would like the readers to take away from this paper is some caution and humility in interpreting the existing cross-national evidence on the relationship between trade policy and economic growth" (Rodriguez and Rodrik, 2000: 62). For instance, in the case of sub-Saharan Africa, as noted in Rodrik (1998), there is little concern that Africa's different conditions such as poor infrastructure, geography or dependence on few commodities, make it a special case where exports do not respond to liberalization policies. However, he argues, the effect of trade policy on economic growth seem to be indirect and much more modest. This is because the fundamentals for long-term growth, including human resources, physical infrastructure, macroeconomic stability, and the rule of law, are relatively underdeveloped on the continent (Rodrik, 1998).

These studies draw attention to the difficulty of defining openness with reasonable indicators (see Fosu, 2000 for a discussion). Various measures are used, including exchange rate overvaluation, relative price distortions, tariffs and quotas, share of trade in gross domestic product (GDP), and the parallel market pre-

miums rate. According to Fosu's survey, the most comprehensive measure of openness appears to be the one used by Sachs and Warner (1995).[3]

Although data limits us from computing a comprehensive measure of openness for Africa, the data given in Table 2 and Figure 1 are instructive. Table 2 shows that exports and imports account for about 60 per cent of Africa's GDP (equally divided between exports and imports). Africa's financial integration in the world economy is limited, as can be ascertained from the share of foreign direct investment (FDI) in GDP, which is about one per cent in the last decade. The share of aid however, (and hence debt creating flows) in the total budget of most African countries is significant (see below). Since the share of government subsidies in total public spending amounts to only 3.5 per cent on average, we could infer that Africa is generally non-interventionist. Similarly, the share of tax revenue on international trade is approximately 12 per cent of total government revenue (see Table 2). Overall, Figure 1 offers an elaborated version of the openness indicator,

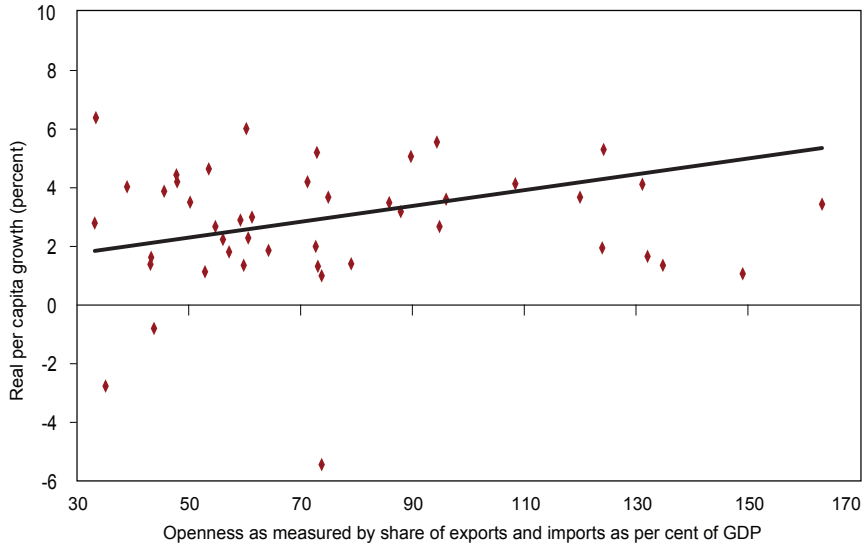
Table 2.
Some indicators of openness in Africa (1990-2001 average)

Region	(X+M)/GDP	X/GDP	FDI/GDP	Subs/Expr.	TaxInt'l/Revenue
Eastern & Southern Africa	52.9	25.8	0.6	1.3	9.3
North Africa	60.9	31.7	1.1	6.8	12.1
West Africa	69.8	34.8	1.9	2.5	19.7
Sub-Saharan Africa	57.8	28.5	1.0	1.6	12.2
All Africa	58.1	29.0	1.0	3.5	12.2

Source: Author's computations based on World Bank (2003a).

Key: X + M: Exports (and Imports) of good and non-factor services.
Subs: Subsidies by the government.
Expr: Total Public Expenditure.
Tax Int'l: Taxes on International Trade (i.e. on Imports & Exports).
GDP: gross domestic product.
FDI: foreign direct investment.

Figure 1:
46 African countries; Relationship between openness and growth, 1990-2001



Source: Based on World Bank (2003a).

3 For Sachs and Warner, an economy is deemed open if (1) average tariff rates are below 40 per cent; (2) average quota and licensing coverage of import is less than 40 per cent; (3) a parallel market exchange rate premium is less than 20 per cent; (4) no extreme controls (taxes, quotas, state monopolies) on exports exist; and (5) the country is not considered a socialist country (See Fosu, 2000: 3-4).

together with the average growth of the economy, for each country during the period 1990-2001. It shows a positive correlation between openness and growth (with a correlation coefficient of about 0.30).

African Openness: The pattern of trade

Table 3 shows the deceleration of growth in the volume of exports in SSA from about 15 per cent per annum in the early days of independence to about 3 per cent today. The current level of growth is far below the average for other parts of the world. The share of sub-Saharan Africa in total world export values has also steadily declined by more than half during the period of 1980 to 2001 (see Table 3).

The structure of African exports is characterized by dependence on primary commodities, which makes them vulnerable to global economic shocks. Such commodities are also characterized by low income elasticity of demand, volatility, and a secular decline in prices. They also generally represent sectors where the scope for technical progress is limited (see, among others, Prebisch, 1950; Singer, 1950; Alemayehu, 2002) (see Figures 2 and 3, and Annex 1a).

Table 3.
Growth of export volumes by region, 1965-2002

Region	1965-1973	1973-1980	1980-1986	1993-2002
Industrial Countries	9.4	5.4	3.5	6.2
Developing Countries	4.9	4.9	4.4	7.1
Sub-Saharan Africa*	15.0	0.1	-1.9	3.1

Source: Based on World Bank (1987) for the period 1980-1986 and World Bank (2003c) for the period of 1993-2002.

* Figures for 1993-2002 include South Africa.

Table 4.
Share of African exports in world exports, 1970-2001

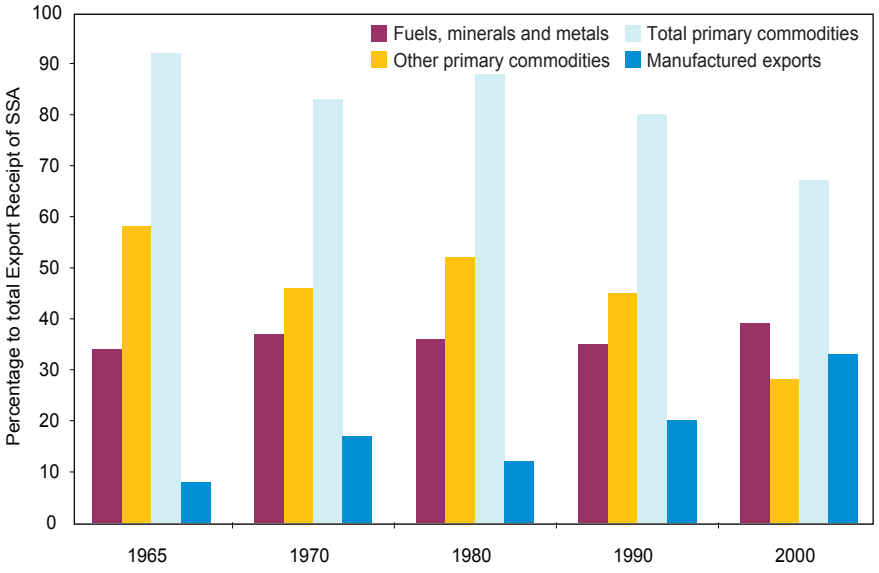
Regions	1970	1975	1980	1985	1990	1995	2000	2001
Developing Countries	22.9	27.5	30.1	25.1	19.7	19.9	23.0	23.5
SSA/World exports	2.0	2.1	2.2	1.6	1.0	0.8	0.8	0.8
SSA/Developing Countries' Exports	8.6	7.4	7.4	6.2	5.2	3.8	3.6	3.5

Source: Based on World Bank (2003d).

For many African countries, more than 50 per cent of export earnings derive from only three principal primary commodities (see Table 5a, b and Figure 3). For most small mineral exporting countries this figure increases to over 80 per cent. SSA as a whole depends on three major commodities for about 70 per cent of its total export receipts (see Annex 1b and Figure 3). Only 8 out of 43 countries (Djibouti, Gambia, Lesotho, Liberia, Mauritius, Sierra Leon, Sudan, and Swaziland) have a relatively diversified export structure. Such a narrow export base combined with weak domestic capacity results in an export supply response less than that of import demand response. In the context of trade liberalization in Africa, the overall result was a deterioration in the balance of trade (see UNCTAD, 2004).

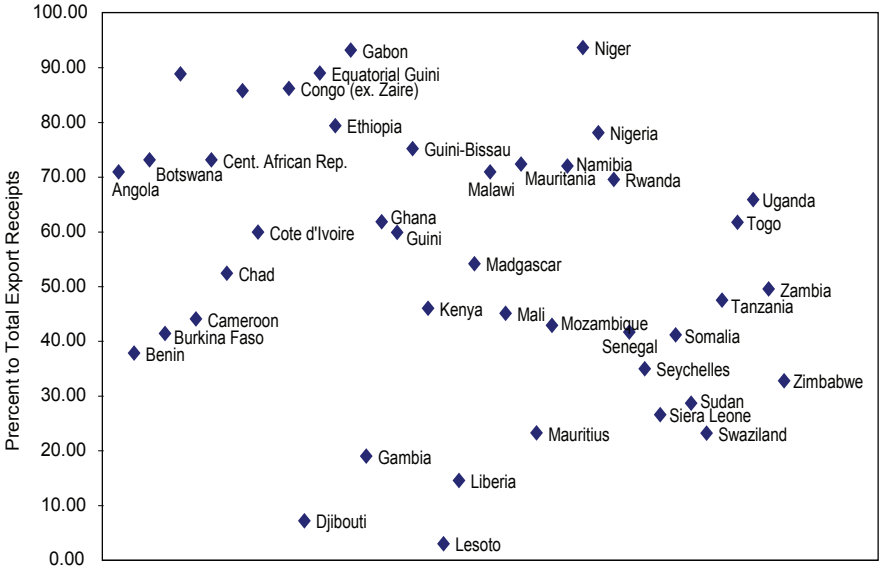
In addition, African countries are also highly dependent on a few developed countries as destinations for their exports (see Table 6). For the period 1955-2002, these developed countries received on average, 80 per cent of Africa's exports. This trend, however, has been declining over the last four decades. Europe stands out as the dominant trading partner, with an average share of about 60 per cent. Although the share of African trade in the world is limited, what happens globally, and in particular in the developed countries, has an enormous impact on Africa (see Alemayehu, 2002).

Figure 2:
Structure of SSA merchandise export receipts



Source: Annex 1a.

Figure 3:
SSA dependence on three principal commodities, 1997-1999



Source: Annex 1a.

The negative impacts of dependence on primary commodity exports are reflected in three interdependent phenomena: a decline in terms of trade, instability of export earnings, and an absolute decline in the levels of demand and supply (see Tables 5a and 5b). Table 5a demonstrates that Africa suffers from export price instability, while Table 5b details the secular decline in its terms of trade (though there was some improvement in recent years). Table 6 shows the concentration of African exports in a few developed countries, which was 84 per cent in 1955 and 71 per cent in 2000. The data also reveal a shift from the EU to the US, which is becoming a more frequent destination for African exports.

Table 5a.
Africa: Price instability* and price declines of selected primary commodities

Commodity	Price Instability				
	1962-1980	1982-1990	1991- 1994	1998-2001	1977-2001
All Non-Fuel Primary Commodities	15.2	8.8	5.0	4.1	11.6
Food	24.4	13.5	3.7	7.2	15.7
Tropical Beverages	25.5	14.1	20.6	5.1	20.8
Cocoa	27.7	15.1	10.2	15.8	18.6
Coffee	28.4	16.8	29.8	8.0	26.0
Agric Raw Materials	16.6	5.7	4.6	4.4	11.7
Minerals, Ores, Metals	12.3	13.0	6.9	5.8	14.0
Commodity	Growth in 1980 constant dollar prices, unless otherwise stated				
	1962- 1980	1982-1990	1991-1994	1998-2001*	1977-2001**
All Non-Fuel Primary Commodities	1.1	-3.1	2.9	-2.1	-2.8
Food	1.0	-2.5	2.6	-0.1	-2.6
Tropical Beverages	2.9	-11.0	15.0	-17.5	-5.6
Cocoa	5.7	-11.7	5.9	-12.6	-6.9
Coffee	2.9	-10.3	17.1	-21.6	-5.1
Agric Raw Materials	0.5	-1.9	2.3	-0.7	-2.0
Minerals, Ores, Metals	-0.5	0.3	-3.1	3.4	-1.9

Source: UNCTAD (2002a); UNCTAD (2002b); UNCTAD (various issues), Commodity Yearbook.

* The measure of price instability is:

$$\frac{1}{n}\sum_{t=1}^{n}\left[\left(\left|Y(t)-\hat{y}(t)\right|\right)/\hat{y}(t)\right]*100$$

where, Y(t) is the observed magnitude of the variable, $\hat{y}(t)$ is the magnitude estimated by fitting an exponential trend to the observed value, and n- is the number of observations (UNCTAD, 2002a).

** In 1985 constant dollar prices.

Table 5b.
Africa: Deterioration in terms of trade, 1990-2001

	Terms of trade index, 1995=100				
	East and Southern Africa	North Africa	West Africa	Sub-Saharan Africa	All Africa
1990	101.1	104.4	122.1	108.3	106.9
1991	98.4	114.3	114.4	104.1	107.5
1992	96.1	108.9	106.2	99.6	102.7
1993	95.7	102.2	100.2	97.3	99.0
1994	98.4	98.1	98.6	98.5	98.4
1995	100.0	100.0	100.0	100.0	100.0
1996	100.2	103.6	120.8	106.9	105.7
1997	96.5	103.3	109.6	101.0	101.6
1998	92.4	93.5	91.4	92.2	92.4
1999	94.4	97.3	101.5	96.9	96.8
2000	102.5	115.5	133.5	112.4	113.3
2001	99.5	115.7	125.7	107.8	110.4
Average	98.0	104.7	110.3	102.1	102.9

Source: Computations based on World Bank (2003a).

Table 6.
African exports by destination, 1955-2000 (shares of total exports)

Period	Developed Market Economies					Developing Countries	Former socialist countries
	Europe	USA	Japan	Other Developed	Total Developed		
1955	70	10	1	3	84	12	4
1960	67	8	1	3	79	13	8
1970	70	7	4	1	82	10	8
1980	49	31	2	1	83	14	3
1990	57	19	1	2	79	17	4
1995	51	18	2	3	74	22	4
2000	43	23	2	3	71	25	4
Average	58.1	16.6	1.9	2.3	78.9	16.1	5

Source: UNCTAD (various issues), Handbook of International Trade and Development.

African Openness: The pattern of international financial flows

FDI, other private capital flows, and capital flight

Africa's share of world FDI is extremely low. In general, by the second half of the 1990s, the average share of FDI in GDP was not only very small but also declining. Any positive trends were largely related to investment in countries with newly discovered resources. For instance in 1996, FDI was a mere US$5.5 billion, representing only 1.5 per cent of global investment flows. Its distribution was also extremely skewed, with Nigeria, Egypt, Morocco, Tunisia, South Africa, Algeria, Angola, Ghana and Cote d'Ivoire accounting for over 67 per cent of FDI receipts to Africa. Between 1991 and 1996 ten countries (Nigeria, Morocco, Tunisia, Angola, South Africa, Ghana, Tanzania, Namibia, Uganda and Zambia) received almost 90 per cent of flows, with Nigeria alone absorbing a third. The majority of flows emanated from France, UK, Germany, and the US. Favoured recipient sectors included oil, gas, metals and other extractive industries (ADB, 1998).

Recently, however, there has been a surge of FDI to some countries (Kasekende, Kitabire and Martin, 1996; Fernandez-Arias and Montiel, 1996; Bhinda and others, 1999). For all of Africa, the share of FDI in GDP rose from 0.29 per cent (US$1.3 billion) in 1990 to 0.56 per cent (US$2.7 billion) in 1995 and to 1.2 per cent (US$6.3 billion) in 1998. The comparable figures for SSA during this period, excluding South Africa, were 0.41 per cent (US$0.76 billion), 1.61 per cent (US$2.7 billion) and 2.4 per cent (US$4.8 billion) respectively.

Relative market size, the existence of mining activity, and the historical pattern of investment together determine the flow of FDI to Africa (see Alemayehu, 2002). Bhattacharya, Montiel and Sharma (1997) grouped African FDI recipients into three categories; (1) countries that are long-term recipients (Botswana, Mauritius, Seychelles, Swaziland and Zambia); (2) countries that recorded large increases in the 1990s (Angola, Cameroon, Gabon, Ghana, Guinea, Lesotho, Madagascar, Mozambique, Namibia, Nigerian and Zimbabwe); and (3) countries that have low and/or declining levels of FDI, but with encouraging turnaround, such as Uganda.

Other private capital flows such as portfolio flows, bank flows and bonds also reflect the openness of African economies. During the late 1970s and early 1980s, private capital flows (described as FDI, private equity flows and private loans, which included bank, bond and other flows) to SSA were about 9 per cent of total private flows to developing countries. This declined to 1.6 per cent during the period of 1990-1995.

This sharp fall was attributed chiefly to the rapid deceleration of private loans beginning in the mid-1980s (Bhattacharya, Montiel and Sharma, 1997).

Based on a case study of South Africa, Zambia, Tanzania, Uganda and Zimbabwe, Bhinda and others (1999) recently noted, however, that this trend and perception are changing. South Africa has received higher flows than all four countries combined (90 per cent of total SSA since 1992) in absolute terms. However, relative to GDP, the other countries have received levels ranging from 10 to 15 per cent, (except South Africa, which received 4 per cent). These percentages are as high as the fastest growing Southeast Asian and Latin American countries (Bhinda and others, 1999).

Portfolio equity flows, though insignificant in magnitude (except in South Africa), are also growing. From 1994 to 1997, more than 12 African-oriented funds have been set up with a total of more than US$1 billion. The operation of these funds is expanding beyond their initial focus on South Africa to Botswana, Cote d'Ivoire, Ghana, Kenya, Mauritius, Zambia and Zimbabwe (Bhattacharya, Montiel and Sharma, 1997). Recent information shows three important equity funds with SSA exposure; (1) Pan-African funds with an exposure of US$692.9 million; (2) South African dedicated funds with an exposure of US$8.057 billion; and (3) Emerging market global funds with an exposure of US$1.5 to $3.5 billion (4 to 10 per cent of world total is in SSA). Total SSA portfolio investment stock rose to US$10.3-12.3 billion around 1995 (see Bhinda and others, 1999).

Bank flows to Africa are not that important, except in South Africa, and to some degree, in Tanzania. This is partly attributed to lenders' preferences to change exposure following economic trends such as; the rapid increase of foreign exchange holdings in Africa following financial sector liberalization; domestic financial sector problems like debt overhang and domestic payment arrears; and the perception of high country risk. Together these factors resulted either in the decline or increasingly very short-term nature of bank flows. Whenever such flows are growing, they are invariably associated with foreign banks. Finally, bond flows are not only low, but also erratic, a phenomenon partly attributed to the low credit rating of most African countries in global financial markets (see Bhinda and others, 1999).

Empirical studies reveal a variety of factors behind the recent surge in portfolio flows. Equity flows, followed by bonds, which in the African context take the form of treasury bills, are noted as the most important. These factors can be grouped into:

- Global or push factors; the trend in the Organization of Economic Cooperation and Development (OECD) countries to invest in emerging markets and the problems some of the OECD institutional (usually pension) investors faced with low interest rates and a slow down in economic activity at home. Such investors find SSA attractive because its yields have a low correlation with other emerging markets.
- Perception of SSA by investors; perceptions are largely determined by investors' information about Africa and range from a very positive 'final frontier' view to a negative bias.
- National factors; these include political and macroeconomic stability, good governance, economic growth, regional integration, standardized regional structure of banks, developed and positively performing stock markets, and the existence of a motivated labour force.
- Particularly, with non-equity flows (bonds and treasury bills); the liberalization of economies, possibility of holding dollar denominated accounts in local banks and hence the low risk nature of such flows, good credit ratings, high domestic interest rates and the development of capital

markets are important (see also Bhinda and others, 1999: 69-84; Alemayehu, 2002; Taylor and Sarno, 1997; Calvo, Leiderman and Reinhart, 1993, 1996).

Openness also means that Africans now have a choice, legal or illegal, to hold their assets in advanced countries--also known as capital flight. Notwithstanding the measurement problems associated with capital flight, a study using a rather large data set based on 22 countries from sub-Saharan Africa concluded that the continent has the highest incidence, exceeding even the Middle East. Thirty-nine per cent of private portfolios were held outside the continent. Were Africa able to attract back this component of private wealth, the private capital stock would increase by approximately 64 per cent (Collier, Hoeffler and Pattillo, 1999). Similarly, Ajayi's (1997) estimate of capital flight from severely indebted low-income countries of sub-Saharan Africa, which stood at US$22 billion, constituted nearly half of the external resource requirement to reduce poverty by half estimated by Amoako and Ali (1998) for 1999-2000.

A review of the empirical literature reveals that the high level of capital flight from Africa, despite the continent's capital scarce characteristics, is attributable to overvalued exchange rates, its evaluation by international investors as the riskiest continent, and the level of indebtedness of African countries (Collier, Hoeffler and Pattillo, 1999; Hermes and Lensink, 1992). The impact of debt on capital flight is, however, contested in Ajayi (1997) and Alemayehu (2002) who found no relationship between the two variables. Ajayi (1997) and Collier, Hoeffler and Pattillo (1999) also pointed to the importance of 'trade-faking' (over and under invoicing of imports and exports), political instability (including the abuse of power), unfavourable macroeconomic environments, and the lack of economic growth as factors triggering capital flight (see Ajayi, 1997).

Bilateral and multilateral flows and Africa's external debt problem

The total external debt of Africa has increased nearly twenty-five fold from a relatively low level of US$14 billion in 1971, to more than US$300 billion in 2003. The major component is outstanding long-term debt, (bilateral flows followed by multilateral) which is generally obtained on concessional terms. Over time, International Monetary Fund (IMF) credits were also increasingly used, along with 'Structural Adjustment' and 'Enhanced Structural Adjustment' facilities until they became a large component of debt. The accumulation of arrears from these flows is leading to an amassing of debt and its attendant problems. The latter is aggravated by the capitalization of interest and principal arrears, which constitute nearly a quarter of the external debt burden of the continent (Alemayehu, 2003).

Although the share of African debt as a proportion of the total debt of developing countries is low, the relative debt burden born by Africa is extremely heavy compared to its capacity, and in particular to its exports. If we exclude grants and net FDI from total inflows to Africa, net transfers since 1990 have, in fact, been negative, with net outflows actually rising from Africa to the developed nations. Such flows increased from US$3.6 billion in 1985 to nearly US$12.5 billion in 1998. Finally, in the 1990s, nearly 35 per cent of grants to Africa went to 'technical experts' that usually came from donor countries.

The actual size of indebtedness does not typically represent an economic problem in itself, since such debt can usually be mitigated by rescheduling and similar short-term arrangements. However, the size of accumulated debt relative to capacity and its subsequent impact on the economy represent a serious dilemma for African countries. In this respect, three inter-related implications of the debt issue deserve mention. First, servicing of the external debt erodes foreign exchange reserves, which might otherwise be available for the purchase of imports. In the past, this led to the 'import compression problem', which is when a shortage of

foreign exchange adversely affected levels of public and private sector investment and ultimately, growth and poverty reduction (see, for instance, Ndulu, 1986, 1991; Ratso, 1994). Second, the accumulation of a debt stock results in a 'debt overhang' problem, which tends to undermine the confidence of private investors, both foreign and domestic. A decline in levels of private investment as a share of GDP from the late 1970s onward may be in part, attributed to this factor (see, for instance, Elbadawi, Ndulu and Ndung'u, 1997). Finally, debt servicing places enormous fiscal pressure on many African nations. This may explain, to some extent, the high fiscal deficits and decline in the share of public investment in GDP since the late 1970s. Naturally, a reduction in public investment will tend to have adverse consequences for physical and social infrastructure, which are vital for social development. This outcome is significant given that public sector investments, in particular in the low income countries of Africa, crowd-in private investment (see Alemayehu, 2002, 2003).

The performance of African economies, coupled with a mounting debt burden, surely indicates that African countries are incapable of simultaneously servicing their debt and attaining a reasonable level of economic growth, let alone addressing the issues of poverty alleviation and social development. The 1996 Heavily Indebted Poor Countries (HIPC) initiative is not only besieged by much conditionality, but also fails to offer a sustainable solution to Africa's financial and trade problems (see Alemayehu, 2003).

Has globalisation caused inequality and poverty in Africa?

Trade liberalization and Inequality in Africa

The earlier literature written by Africans took extreme openness as one of the major obstacles hindering development.[4] ECA (1989) noted that weaknesses in Africa's productive base, the predominant subsistence and exchange nature of the economy, and its openness (to international trade and finance) have all conspired to perpetuate the external dependence of the continent. According to this report, the dominance of the external sector is a striking feature of the African economy, and one that leaves African countries quite vulnerable to exogenous shocks (ECA, 1989). Other Analysts (see Collier and Gunning, 1999), however, argue that "lack of openness explains why Africa has grown more slowly than other regions."

Although global interdependence takes the form of both finance and trade, the focus here is on trade liberalization because of Africa's under-developed financial sector and its relative isolation (apart from aid) from global financial markets.[5] Africa's trade, though very small from the rest of the world's point view (SSA share in world exports is about 1 per cent), is dominant and vital, from the African perspective. Trade share in each country's GDP averages about 80 per cent. The empirical literature identifies various channels through which trade liberalization has impacted Africa, including levels and composition of investment, household welfare, the distribution of income, and the competitiveness of local firms.

One of the avenues through which trade liberalization can affect growth and poverty is through investment. Collier and Gunning (1996) noted that the literature does not unequivocally concur that trade liberalization positively affects aggregate investment. Buffie (1992) argued that if the protected imports substitutes sector is capital intensive then trade liberalization will reduce the returns on investment. In this view, liberalization is tantamount to a reduction of subsidies on capital goods.

4 See Alemayehu (2002: Chapter 1) for a discussion of such studies.

5 See UNCTAD (2004) for a detailed discussion about 'trade policy in general' and 'trade liberalization' in particular and Alemayehu (2002) for both trade and financial linkage of Africa with the result of the world.

Collier and Gunning (1996), based on the case of Uganda, Nigeria, and Tanzania, suggested that trade liberalization might result not only in a fall in aggregate investment, but also in changes in its composition. Dividing investment into equipment (tradable capital) and structure (non-tradable capital), they found that in each country, equipment investment fell significantly both in absolute and relative (to GDP) terms. For instance, in Uganda, equipment investment fell by 20 per cent while structures investment rose by 34 per cent. The authors underscored the need to weigh these opposing changes to analyse the effects of trade liberalization on investment and its composition. If the traded sector is characterized by dynamic externalities and learning by doing, as is usually the case, the detrimental effect of liberalization on Africa's growth could be very large. Changes in investment might also be related to the terms of trade. Liberalization in Africa has led to specialization in commodity production, which has been characterized by deterioration in the terms of trade (see Alemayehu, 2002). Along the Prebisch-Singer hypothesis, this volatility in the terms of trade brought about capital (and hence, investment) instability in Africa (see Fosu, 1991).

Another area of concern for African countries is the effect of liberalization on household welfare. UNCTAD (2004) shows that there is a general tendency for the incidence of extreme poverty to be more persistent in commodity dependent countries, such as those in Africa. In least developing countries that export minerals, the incidence of $1/day poverty rose on average from 61 to 82 per cent between the period 1981-1983 to 1997-1999 (UNCTAD, 2004: 131). Haouas and Yagoubi (2003) investigated the response of demand elasticities for labour to trade liberalization in Tunisian manufacturing industries. They found weak empirical support for the claim that trade liberalization leads to an increase in the demand elasticity for labour, and they attributed this to the tight labour regulation in Tunisia. This finding indicates the possibility of mitigating the detrimental effect of liberalization on welfare, but only at the cost of firm efficiency and competitiveness.

Another study on Tunisia by Chemingui and Thabet (2001), using a Computable General Equilibrium (CGE) model, found that liberalization, and specifically the reduction of export subsidies in the agricultural sector, decreased average rural household welfare. The study attributed this result to a shift in domestic demand from locally produced goods to imported goods, and to a shift in supply from production for local markets to production for foreign markets. The elimination of internal support (subsidies) for agricultural sectors made agricultural inputs expensive. This rise in price forced suppliers to allocate resources for production that used less of the previously subsidized inputs. The authors found that rural households will bear the harsher consequences of these changes as both their income and expenditure are negatively affected.

The impacts of trade liberalization on urban households have also been the subject of much debate. For instance, Litchfield, McCulloch and Winters (2003) found that trade liberalization hurt non-agricultural households, while the combination of output and input market reforms dampened the effect on rural farmers. The idea that urban households will be affected, but only through a change in their level of expenditure, appears to contradict the study of Bussolo and Lecomte (1999). They demonstrated that in sub-Saharan Africa, a reduction of average tariffs from 40 per cent to 10 per cent entails a real income loss of 35 per cent for urban employers and 41 per cent for recipients of trade rents, compared to a gain of 20 per cent for farmers. The overall net gain for the economy is estimated at 2.5 per cent. As noted by Chemingui and Thabet (2001), the relatively small size of this efficiency gain, compared to the redistribution effects, makes trade liberalization difficult for policy makers to pursue.

In a similar vein, Blake, McKay and Morrissey (2000) concluded that trade liberalization has modest positive welfare effects.[6] They noted that the welfare of agricultural producers has significantly improved, although the urban self-employed stood to gain more from freer trade. Ingco (1996) using data from a sample of developing countries, including those from Africa, noted that trade liberalization in agriculture has invariably led to a terms of trade deterioration. This result can be counteracted however, with reforms that correct for domestic distortions. The terms of trade gain and loss is mixed for most African countries in his sample. For net beverage exporters, however, Ingco (1996) reported a loss in terms of trade. He also observed that welfare losses are associated with the extent of initial trade distortion. The larger this distortion, the greater the welfare loss will be. Given the distortions in many African countries, welfare losses following liberalization are likely to be the dominant effect.

A number of negative impacts of trade liberalization on household welfare are documented in the review of Winters, McCulloch and McKay (2002). In the case of Zambia, trade liberalization distorted domestic marketing arrangements and eventually destroyed markets. For instance, the maize marketing monopsony that benefited rural households by allowing them to purchase large stocks of maize was abolished. The loss of the monopsony isolated rural households and significantly reduced their income (Winters, McCulloch and McKay, 2002). Deininger, Klaus and Olinto (2000, cited in Winters, McCulloch and McKay, 2002), using micro-panel data for farm households in Zambia, found that the improvement of agricultural productivity following external liberalization was severely constrained by the absence of key productive assets. Related studies cited in Winters, McCulloch and McKay (2002) and Head (1998) showed that female workers in South Africa suffered a great deal when the EU scaled back its imports of canned fruit. Elson and Evers (1997) noted that some studies showed that fishermen in Tanzania shared the same fate when the EU cut back its imports of fish over the period 1997-1998. Fishermen incomes declined by a sizable 80 per cent. Elson and Evers (1997, cited in Winters, McCulloch and McKay, 2002) observed that in a response to commercialised agriculture, many households in Uganda shifted from the production of food crops to cash crops, jeopardizing family health in the process. Their study shows that the adjustments elicited a positive supply response, but at the same time, increased demands on female labour time, and this was accompanied by increases in child malnutrition.

There are however, studies that point to gains in household welfare. Delgado, Hopkins and Kelly (1998, cited in Winters, McCulloch and McKay, 2002) showed that an additional dollar of new farm income raises total household income by $2.88 in Burkina Faso, $1.96 in Niger, $2.48 in the Central Groundnut Basin of Senegal and $2.57 in Zambia. These increases in household incomes, Hazel and Hojjati (1995, cited in Winters, McCulloch and McKay, 2002) argue, are due to the high marginal propensities to consume out of local non-tradable goods. Furthermore, Löfgren (1999, cited in Winters, McCulloch and McKay, 2002), made the case that reduced agricultural protection in Morocco was bound to have substantial welfare gains in aggregate terms. Similarly, Anderson and Yao (2003) demonstrated that the welfare gains accruing to SSA region from participating in the World Trade Organization (WTO) rounds are twice as much than from not partaking in it.

Using data for 14 countries, Hertel and others (2002) concluded that the impact of trade liberalization on different households can't be conclusively determined because the effects were fairly varied and not always positive. It was also observed that global trade liberalization had the unwelcome effect of raising the price of staple foods relative to non-food prices. Since the poor spend a disproportionate share of their in-

6 The estimates are based on the assumption that the commitments of the Uruguay Round are implemented by 2002.

come on food, trade liberalization will adversely impact them. Moreover, the impacts on short- run earnings are fairly mixed. With agricultural profits rising and non-agricultural profits and wages falling, the overall outcome depends on the structure of poverty in each country. These results are also reproduced in Hertel and others (2002).

The loss in terms of welfare for Africa may also come, as noted by Dembele (2001), from the global unfairness of trade liberalization. Though most developing countries reduced import tariffs to less than 20 per cent and removed non-tariff barriers altogether, developed countries have not implemented their same commitments. This unevenness in liberalization has caused cheap imports (including from newly industrializing Asian countries) to flood sub-Saharan African markets. This has resulted in the destabilization of many small scale private and public enterprises, and the subsequent loss of a considerable volume of domestic jobs. This trend of de-industrialization, as noted by Dembele (2001), has been accompanied by the repealing of minimum wage laws, which, although aimed at helping competitiveness, have severely reduced the bargaining power of employees. Currency devaluations and loss of revenue from import taxes have diminished purchasing power, with governments forced to respond to budget deficits with new indirect taxes. The result is more pressure on low income families that tend to spend most of their income on consumption, and cutbacks on important public, especially social, spending.

Tekere (2001) similarly reported that liberalization in Zimbabwe put the country's economy in turmoil, and that growth was better in the years preceding it. According to Lall (1999, cited in Winters, McCulloch and McKay, 2002), the increased import competition in Africa has substantially reduced industrial employment. Rather than upgrading aggressively, firms in Kenya, Uganda and Tanzania contracted their activity in response to competitive pressure. Lall (1999) noted that firms' lack of preparedness for competition, the absence of policies to promote technological improvement, and the poor technological and infrastructure development in the countries were thought to have contributed significantly to these perverse results. A similar study by Parker, Riopelle and Steel (1995, cited in Winters, McCulloch and McKay, 2002) showed that the benefits from import-liberalization accrued mainly to firms that modified their operations swiftly.

Rodrik (1992) noted that the impetus for liberalization in Latin American and African countries primarily arose from the prolonged macro-economic quagmire in which developing countries were immersed during the 1980s. The liberalization hence pursued has generally led to five dollars of income being reshuffled within the economy for every dollar of efficiency gain. This huge distributional effect has an enormous political implication. Considering three parties, consumers, domestic producers and import license holders, he showed that license holders and domestic producers lost portions of income while consumers gained by a magnitude that barely exceeded these losses. This left a net efficiency gain that amounted to a fraction of the losses of the two parties (i.e. the ratio of net gains to redistribution that is involved is very small). Although there are studies that support the view that trade reform improves equity, the prospect of too much redistribution may explain the political difficulty in enacting trade reform. From the perspective of policymakers, the study elaborates that the pure reshuffling of income must be counted as a political cost. The rents and revenues that accrue on a regular basis create entitlements, thereby increasing the political difficulty of instituting changes except, perhaps in times of crisis. It is thus instructive and important to appreciate the political context of such reform, particularly in Africa where the democratic tradition is generally nascent.

In summary, the existing empirical literature on Africa shows that the impact of trade liberalization on household welfare is mixed. In most cases rural households, relative to urban, seem to benefit during the initial stages of reform. On the other hand, liberalization changes the level and composition of investment,

and causes large redistributions in income that are politically costly and associated with de-industrialization. Which of these effects dominate in a particular country is largely an empirical question. In countries that are non-oil primary commodity exporters, trade liberalization is associated with poverty and thought to reinforce the poverty trap. In general, UNCTAD (2004) reported that, the trade-poverty relationship improved between the first and the second half of the 1990s. Using the IMF index that categorizes countries as open, moderately open, and restricted, the study found that moderately open countries, followed by the restricted ones, made the greatest improvements (UNCTAD, 2004).

Trade Liberalization and Poverty in Africa

Poverty is pervasive in Africa. As Table 7 demonstrates, North Africa has a relatively lower incidence of poverty when compared to Southern and East-Africa, which have the highest. Poverty is also found to be largely a rural phenomenon, and in most countries, urban is lower than rural destitution by as much as 50 per cent, suggesting significant regional disparities in the standards of living. During the 1990s, the number of poor living in SSA increased by about 73 million, leading to a one percentage point rise in the incidence of poverty (see Table 8). ECA (2003) noted that close to half of the African population lives on less than a dollar per day. However, a comparison of two surveys conducted for about 14 countries in the early and late 1990s shows that there may be a trend towards poverty reduction (see Tables 7 and 9).

Human development indicators remained fundamentally unchanged in the 1990s, though there were still a number of cases where poverty showed significant improvement. These included Botswana, Burkina Faso, Cameroon, Ethiopia, Lesotho, South Africa, Egypt and Uganda, where absolute poverty noticeably declined (see Tables 8 and 9). Other reports also indicated significant improvements in the condition of the poor in Mozambique and Rwanda. Despite these encouraging signs, poverty in Africa, particularly in SSA remains deeply entrenched.

ECA (2003) illustrated the spatial dimension of poverty when it reported that poor households tended to be in the most impoverished regions. These households were also likely to be larger in size, less literate, and suffering from insufficient nutrition. ECA also approximated that a quarter of the people in many African countries are chronically poor, with up to 60 per cent of the population transitioning in and out of poverty. Their findings underscored the importance of reducing vulnerability as an anti-poverty strategy (ECA, 2003).

The economic growth that stems from international trade is one effective means available to Africans for tackling poverty. It is therefore important to ask whether poverty in Africa is associated with greater openness in general, and trade liberalization in particular. The available aggregate data for Africa is presented in Figure 4, where openness (measured as exports and imports as the share of GDP) positively associate with income inequality. This data indicates that more open economies in Africa tend to have high levels of income inequality. Part of the reason for this positive association could be that SSA countries in the middle-income category derive a significant part of their GDP from trade in extractive industries. These sectors, due to political economy factors, are characterized by high initial inequality (see also below). The question arises; does this mean that more openness can lead to a worsening of income inequality and higher incidence of poverty?

The answer depends on a number of factors. There are cases where increased trade liberalization might be beneficial to the poor. According to Winters, McCulloch and Mckay (2004), the net gain to household welfare could be positive in circumstances where the majority of the population works in the trad-

Table 7.
Poverty in some African countries in the 1990s

Country	Survey year	Poverty incidence (percentage)			Estimated poor population 2003 (milions)			Population (millions)
		Rural	Urban	National	Rural	Urban	National	National
West Africa								
Senegal	2001	80.0	51.5	53.9	4.19	2.50	5.44	10.09
Mali	1998	75.9	30.1	63.8	7.03	1.13	8.29	13.00
Gambia	1999	73.0	28.0	69.0	0.73	.12.0	0.99	1.43
Niger	1993	66.0	52.0	63.0	6.52	1.08	7.54	11.97
Guinea	1996	52.0	24.0	40.0	3.27	0.52	3.39	8.48
Burkina Faso	1998	51.0	16.5	45.3	5.57	0.34	5.89	13.00
Cote d'Ivoire	1998	42.0	23.0	33.6	3.99	1.64	5.59	16.63
Nigeria	1993	36.4	30.4	34.1	28.11	14.22	42.29	124.01
Ghana	1999	36.0	17.3	27.0	4.83	1.30	5.65	20.92
Benin	2002	33.0	23.2	29.0	1.27	.67	1.95	6.74
Estimate		44.4	29.5	38.1	65.5	23.50	87.00	226.27
Central Africa								
Cameroon	2001	49.9	22.1	40.2	4.02	1.76	6.44	16.02
Chad	1996	67.0	63.0	64.0	4.47	1.22	5.50	8.60
Estimate		56.9	29.1	47.6	8.5	3.00	11.90	24.62
North Africa								
Mauritania	2000	61.2	25.4	46.3	0.75	0.42	1.34	2.89
Algeria	1995	30.3	14.7	22.6	4.41	2.53	7.19	31.80
Morocco	1999	27.2	12.0	19.0	3.76	2.01	5.81	30.57
Egypt	2000	21.2	10.7	16.7	8.74	3.28	12.01	71.93
Tunisia	1995	13.9	3.6	7.6	0.52	0.21	0.75	9.83
Estimate		24.4	11.7	18.4	18.20	8.50	27.10	147.02
East Africa								
Djibouti	1996	86.5	.	45.1	0.09	.	0.32	0.70
Madagascar	2001	74.9	50.0	69.6	9.54	2.62	12.11	17.40
Burundi	2000	68.7	68.2	68.7	4.27	0.42	4.69	6.83
Rwanda	2000	67.9	22.6	64.1	5.90	0.13	5.38	8.39
Kenya	1997	53.0	49.0	52.0	11.82	4.76	16.63	31.99
Tanzania	1991	49.7	24.4	51.1	14.21	2.04	18.90	36.98
Ethiopia	2000	45.0	37.0	44.2	26.87	4.06	31.24	70.68
Estimate		52.8	40.3	51.7	72.70	14.0	89.30	172.97
Southern Africa								
Zambia	1998	83.1	56.0	72.9	5.43	2.39	7.88	10.81
Mozambique	1997	71.3	62.0	69.4	9.62	3.33	13.09	18.86
Swaziland	1995	70.6	45.4	65.5	0.57	0.13	0.71	1.08
Malawi	1991	66.5	54.9	54	7.10	0.79	6.54	12.11
Lesotho	1993	53.9	27.8	49.2	0.75	0.11	0.89	1.80
Zimbabwe	1996	48.0	7.9	34.9	4.18	0.33	4.50	12.89
Estimate		66.3	43.9	58.4	27.70	7.10	33.60	57.55

Source: World Bank (2004).

Table 8.
Status of human development in sub-Saharan Africa

	1990	2000
People living on less than US$1 (PPP) a day (% of population)	45	46
Primary completion rate (% of relevant age group)	57	55
Promote gender equality and empower women	79	82
Under five mortality rate (per 1,000 births)	187	174
Maternal mortality rate (per 1,000,000 live births)	920*	917
Access to an improved water source	54*	58
Access to improved sanitation facilities (% of population)	55*	54

Source: www.developmentgoals.org.

* United Nations Database.

Table 9.
Change in poverty during 1990s (based on $1/day and national poverty lines)

Country	P_0 ** (survey year)	P_0 ** (survey year)	Annual percentage change
Botswana	33.40 (1986)	23.50 (1993)	-4.23
Burkina Faso	61.00 (1994)	44.90 (1998)	-6.60
Cameroon	33.40 (1996)	17.10 (2001)	-9.76
Ethiopia	31.30 (1995)	26.30 (2000)	-3.19
Kenya	26.50 (1992)	23.00 (1997)	-2.64
Lesotho	43.11 (1993)	36.00 (1995)	-8.25
Madagascar	49.00 (1993)	49.00 (1999)	0.00
Mauritania	28.60 (1995)	25.90 (2000)	-1.89
South Africa	11.50 (1993)	7.10 (1995)	-19.13
Zambia	63.70 (1993)	63.70 (1998)	0.00
Cote d'Ivoire	12.30 (1995)	15.50 (1998)	6.88
Malawi*	54.00 (1991)	65.00 (1998)	2.40
Egypt*	22.90 (1996)	16.70 (2000)	-9.28
Zimbabwe*	25.80 (1991)	34.90 (1996)	5.20
Tunisia*	7.40 (1990)	7.60 (1995)	0.52
Tanzania*	41.60 (1993)	35.70 (2001)	-2.06
Uganda*	44.00 (1997)	35.00 (2000)	-6.82

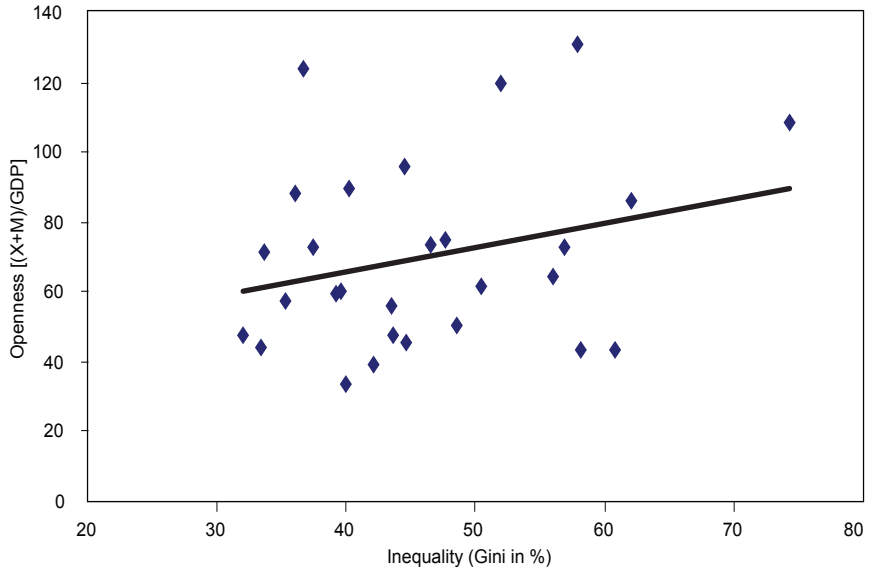
Source: World Bank (2003b); World Bank (2000, 2001).

* National poverty line is used instead of US$1/day.
** P0= Head count ratio.

able sectors, such as in the production of exportable crops or in the formal manufacturing sectors that trade internationally. The entire issue is thus country and period specific.

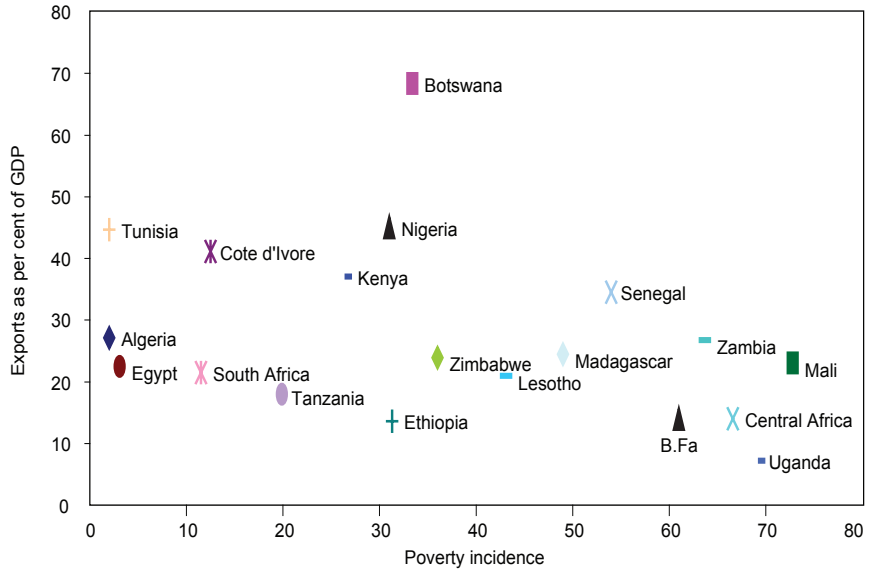
Notwithstanding the complex relationship between growth and poverty, in particular where the effect of income distribution is considered, the aggregate available data for Africa in the 1990s shows that openness is negatively associated with the incidence of poverty. The relatively developed countries such as those in North Africa, South Africa, and Cote d'Ivoire had a high index of openness and a lower incidence of poverty (see Figure 5). Botswana, which is an outlier, did not seem to have less poverty even though it maintained a higher degree of openness. This case suggests the possibility of a non-linear relationship between the two variables. This outcome might be related to inequality which often arises (or increases) in highly open countries characterized by dependence in a single commodity; such as diamonds in Botswana.

Figure 4:
28 African countries; Openness and inequality, 1990-2001



Source: Based on ECA (2003).

Figure 5:
Openness and poverty in Africa in the 1990s



Source: Alemayehu (2006).

In another study, Cornia (1999) argues that falling equality in Africa over the past two decades cannot be attributed to the traditional causes such as land concentration and unequal access to education, but rather to the unregulated liberalization of domestic and international markets. His analysis points out that inequality between countries has been, in the past 15–20 years, followed by a surge in inequity within countries, including a few African economies. According to Cornia, the main source of the disparity in sub-Saharan Africa was the urban-rural gap. However, the process of 'equalization-downwards', with the impact of failed structural adjustment (liberalization) policies on urban income, has bridged that divide. Cornia also noted that intra-urban and intra-rural disparities have persisted as a result of policies that promote growth and exports in the midst of highly unequal distribution of assets. Given these findings, it seems that the relationship of openness, growth and inequality remains undetermined.

Inequality, in addition to income, shapes the relationship between openness and poverty. African inequality can be evaluated from two perspectives: (1) it can be appraised from a global viewpoint where Africa's position in the world distribution of wealth is considered (see Table 10); (2) the distribution of income and wealth can be examined within the African continent, comparing countries or groups within countries (see Table 11).

Table 10.
Regional per capita income as share of high income
(OECD Countries Per Capita Income – 1995 constant US$, percentage)

Region	1980	1981-1985	1986-1990	1991-1995	1996-2000	2001
Sub-Saharan Africa	3.3	3.1	2.5	2.1	2.0	1.9
South Asia	1.2	1.3	1.3	1.4	1.5	1.6
Middle East & North Africa	9.7	9.0	7.3	7.1	6.8	6.7
Latin America & Caribbean	18.0	16.0	14.2	13.5	13.3	12.8
East Asia & Pacific	1.5	1.7	1.9	2.5	3.1	3.3
High income non-OECD	45.3	45.3	48.2	56.1	60.2	59.2
High income	97.7	97.6	97.6	97.9	97.9	97.8
High income OECD	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computations based on World Bank (2003d)

Table 11.
Inequality measures for Africa vis-à-vis other regions in the 1990s

Inequality Indicators	Average	Standard Deviation	Maximum	Minimum	East Asia and Pacific	South Asia	Latin America	Industrial Countries
Gini Coefficient	44.4	8.9	58.4	32.0	38.1	31.9	49.3	33.8
Share of Top 20 %	50.6	7.4	63.3	41.1	44.3	39.9	52.9	39.8
Share of Middle Class	34.4	4.3	38.8	38.8	37.5	38.4	33.8	41.8
Share of Bottom 20%	5.2	5.2	8.7	2.1	6.8	8.8	4.5	6.3

Source: ECA (1999).

Table 10 shows the striking divergence in the distribution of income across the world, despite fifty years of rapid globalisation. The table highlights the fact that the poor are growing more destitute while the rich are becoming even better off. Africa's per capita income as a percentage of high income OECD countries declined from 3.3 per cent in 1980, to 2.1 per cent during 1991-1995. This decline continued to 2.0 per cent in the second half of the 1990s and to 1.9 per cent in 2001.

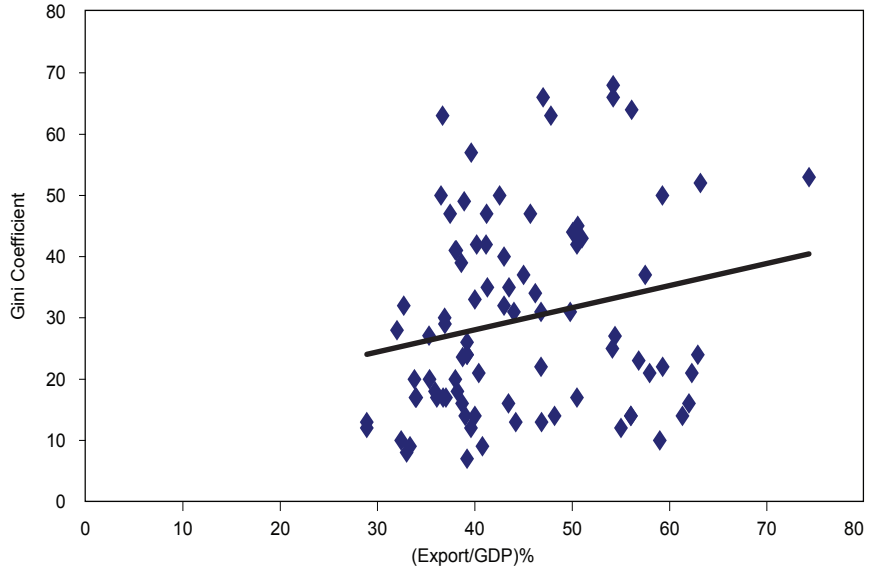
This widening income gap was actually common for most developing countries, except for countries in East Asia and the Pacific. Moreover, Wade (2003) has shown that Africa's share of the bottom quintile of the world distribution of income increased between 1990 and 1999. The continent of Africa is becoming worse off after opening its economy to international trade and finance. It is therefore important to examine whether openness in Africa, in particular international trade, is associated with persistent and rising inequality and poverty. This issue is discussed at length in the rest of this section.

The information contained in Table 11 is based on the best available data in Africa, and covers approximately 60 per cent of the continent's population (ECA, 1999). It shows that Africa is characterized by a high degree of inequality, with a Gini coefficient of 44 per cent. Latin America had a Gini coefficient of 49 per cent. The high standard deviation reflects the large variation in inequality among countries on the

continent. Inequality was especially high in South Africa (58.5 per cent), Kenya (58.3 per cent), Zimbabwe (56.8 per cent), Guinea-Bissau (55.8 per cent) and Senegal (54.1 per cent) and lower in Egypt (32 per cent), Ghana (34.1 per cent) and Algeria (35.5 per cent). The top 20 per cent of the African population accounted for about half of total income; again the second highest among regions in the world, next to Latin America (see ECA, 1999).

Given these results, it is instructive to ask whether or not this pattern of inequality is associated with openness. Most cross-country regressions have found that openness, defined in different ways, is positively correlated with income inequality (see Fischer, 2000; Easterly, 2002).[7] Again, as can be read from Figure 6, the correlation between a measure of openness and income inequality is positive and significant for selected African countries. Apart from the theoretical explanations for this evidence (such as the biased demand for skilled labour when developing countries liberalize their trade), there is also a political economy side to the story. Easterly (2002) argues that resource rich countries that depend primarily on a few products for their exports tend to have institutions and political frameworks that favour the persistence of income inequality. That is, more open economies in Africa tend to depend on one or two major export items (mineral, oil or primary commodity), and are characterized by high *initial* inequality. Such primary inequality could be sustained by trade liberalization.

Figure 6:
Inequality and trade openness in Africa

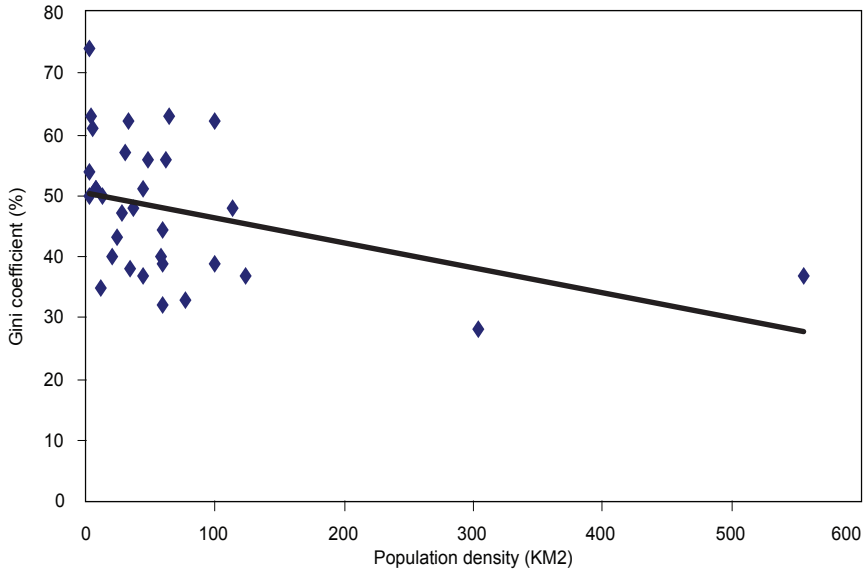


Source: Bigsten and Shimeles (2003).

The impact of the initial endowment differential on the distribution of income following liberalization is shown in Figure 7. Using population density as a crude indicator of endowment intensity, Figure 7 shows a negative association between population density (low density showing initial inequality of resource ownership) and the Gini coefficient for a number of African countries in the 1990s. This outcome suggests that countries abundant in natural resources, such as land, tend to experience a rise in income inequality following trade liberalization. The explanation follows that countries rich in natural resources or land are both

7 Some disagree on the assertion that trade reform worsens income inequality on the grounds that the causation is weak (e.g. Srinivasan and Wallack, 2003). Dollar and Kraay (2001) also takes the view that greater openness is neutral with respect to income distribution.

Figure 7:
Endowment of land and income inequality



Source: Bigsten and Shimeles (2003).

capital and labour poor--factors represented by inequitable ownership in Africa (see Deininger and Olinto, 2000). Both Figure 7 and the current cross-country evidence support these linkages between factor endowments and inequality.

Social Development, Equity and Inequality

Structural Adjustment Programs (SAPs) and Social Development in Africa

SAPs have been the macroeconomic policy framework informing policy making in Africa since the 1980s. SAPs are based on the belief that the African economic and social crisis is primarily explained by policy failures that can be redressed with reform (World Bank, 1981, 1989, 1994a). The World Bank argued that the macroeconomic management strategies prescribed in SAPs represent the road to economic recovery for Africa, which means *more*, not less, adjustment is required (World Bank, 1994a). This assertion has been the subject of a number of criticisms voiced by a diversity of actors in the international policy arena (see, *inter alia,* ECA, 1989; Adam, 1995; Mosley, Subasat and Weeks, 1995; Lall, 1995; White, 1996; Alemayehu, 2002).

At the 1995 Copenhagen Summit for Social Development, a commitment was made to include social development goals in structural adjustment programs, paying particular attention to the eradication of poverty, the promotion of full and productive employment, and the enhancement of social integration. According to Mkandawire and Soludo (1999), SAPs in Africa have made significant progress on economic fundamentals, but poverty remains widespread and the institutional requirements for sustaining growth and extending its benefits more equitably among the population remain onerous (see Mkandawire and Soludo, 1999; ECA, 1999). Initially, there was an attempt to address the detrimental social impact of SAPs by ad hoc measures for the inclusion of 'social safety nets'. This however, has changed over time and the World Bank and IMF have more recently emphasized linking SAPs with poverty reduction through Poverty Reduction Strategy Papers (PRSPs). This modification is being strengthened with support for improved statistical and poverty monitoring capacity at the country level as well as with promises to ensure the participation (and

ownership) of local communities and civil society in the design and implementation of poverty reduction policies.

Mkandawire and Soludo (1999) noted that when the situation of the SAP implementing countries was evaluated in-line with the objective of reducing poverty, poverty in SAP countries was comparable to the regional average, if not worse. In six of the thirteen countries for which data is available, more than 50 per cent of the population lived on less than one dollar a day. In some countries, like Zambia, the poverty head count ratio reached as high as 85 per cent. Poverty was also less severe in countries with no special assistance programs (see Mkandawire and Soludo, 1999), pointing to the fact that the implementation of SAPs over the last two decades has been unsuccessful in achieving the goal of equitable social development, as outlined in the Copenhagen summit.

There is also greater recognition, in Africa and among its development partners, of the effects of structural adjustment on social development and growth. The ECA study cited above shows that social stability in the African countries implementing adjustments accounted for a significant difference in growth performance. Five countries with social instability grew at less than half the annual rate of those that maintained social stability. Moreover, over the past few years, the sector approach to addressing social development equity has evolved. It has been tried in about 25 programs and is replacing the traditional form of aid. About half of the identified programs are in health and education with another nine in roads. This indicates an increasing emphasis on social sectors since the Copenhagen Summit. Unfortunately, poor management and slow resource disbursement at the implementation stage characterize most projects. Data for the first year after the Social Summit show that the average public spending in African reforming countries declined from 3.5 per cent to 3.2 per cent of GDP (IMF, 1998; Mkandawire and Soludo, 1999; Alemayehu, 2000).

The evaluation of special assistance programs in adjusting African countries is difficult due to the paucity of data detailing how much public spending actually reaches the poor. This partly reflects public mismanagement, but also points to the existence of external donors (as well as NGOs) that increasingly fund this sector, but whose accounts are not integrated into national databases. In summary, there is an increasing emphasis (since the Summit) to focus on social issues such as poverty, social sector promotion, education, and health, however, implementation problems are major bottlenecks in realizing these social objectives (Mkandawire and Soludo, 1999; Alemayehu, 2000).

The Poverty Reduction Strategy Papers (PRSPs), the Millennium Development Goals (MDGs) and social development in Africa[8]

The PRSPs and realization of the MDGs are key elements of current public policy discourse in Africa. The PRSPs are essentially extensions of the SAPs and sponsored by the Bretton Woods Institutions. PRSPs suggest that there are opportunities to scale up participatory learning strategies from grassroots to national levels, while also offering new possibilities to budget for these activities and increase public interest and participation in poverty monitoring (UNDP, 2002). One of the problems of earlier strategies is that they failed to involve civil society and major stakeholders in policymaking. Instead, development policies were often formulated by government technocrats and decision makers, with the influence and help of donors. The PRSP initiative created, at least in principle, an opportunity for building a national consensus on the critical causes of poverty and social development inequity, as well as how to design appropriate interventions.

8 This section is largely based on Mkandawire and Soludo (1999) report (memo) on 'Special Program of Assistance–Phase Five Towards New Aid Relationships to Reduce Poverty'.

Thus, if appropriately implemented, the value added of the PRSP initiative may go beyond the economics of poverty reduction all the way to improving democratic culture and developing social capital.

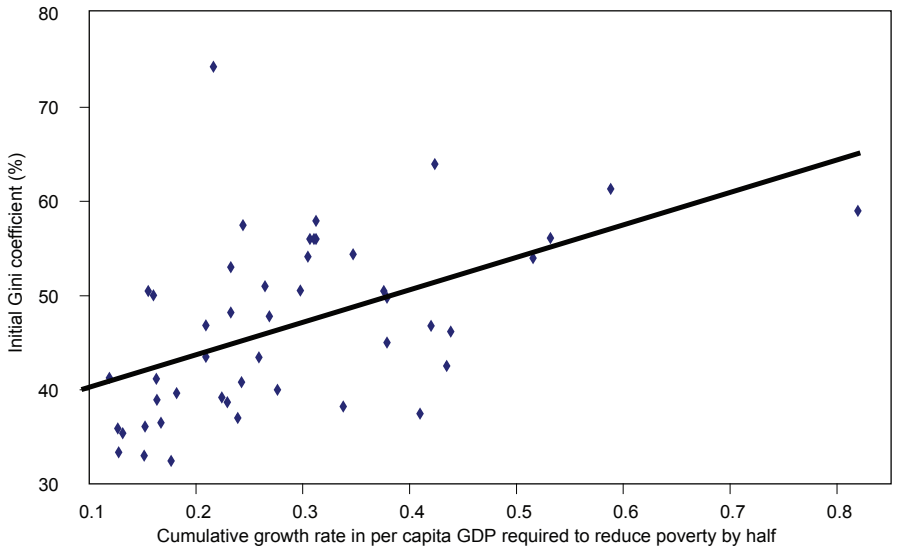
In Africa, as elsewhere, participatory poverty data collection and policy work appear to be limited to and over-reliant on donor-funded exercises. Critical collaboration between government, civil society, and the private sector does not occur, and consultations are not incorporated into the political activity of prioritising a range of policy options (UNDP, 2002; Weeks and others, 2003). A recent study that evaluated the PRSP and Joint Staff Assessment documents of the World Bank for 19 African countries noted encouraging signs of progress towards comprehensive and participatory planning based on the recognition that poverty is multidimensional and has many roots. At the same time however, there is a tendency to ignore the social dimensions of anti-poverty strategies. The authors therefore concluded that there is scope for further international dialogue on the realistic expectations of PRSPs in terms of data, analytical rigour, and strategic detail. There is also room for technical guidance in the preparation of PRSPs with the aim of incorporating social development goals (Thin, Underwood and Gilling, 2001).

MDGs are the centre of official social discourse in Africa. It is hoped that these eight broad goals will be used as "a tool for awareness raising, advocacy, alliance building, and renewal of political commitments at the country level, as well as to build national capacity for monitoring and reporting on goals and targets" (Weeks and others, 2003). The recent impetus for MDGs in Africa can be linked to the Copenhagen and the Millennium Declarations. Current studies about the MDGs generally cover the issue of achievability and resource requirements. On the other hand, key government policy documents in many parts of Africa use the MDG targets as desirable benchmarks even though the MDGs are not yet a coherent and central part of policy plans. This could be alleviated by streamlining the MDGs and PRSPs into the long-term plan and vision of African countries. Moreover, since many African countries remain in conflict or post-conflict situations, both the MDGs and the PRSPs need to take this issue on board to bring about a lasting solution for poverty and inequity. Similarly, major donor countries are using such targets as their guide for development assistance, but do not seem to address these latter issues (see Weeks and others, 2003; UNDP, 2002).

In addition to the country level harmonization of policies with MDG targets, regional initiatives such as the New Partnership for Africa's Development (NEPAD) have anchored their framework on MDG targets. Thus, the global as well as regional inertia behind the MDGs is increasingly forming a large part of the official discourse on poverty, equity and interdependence. This is occurring even though the resources required to attain the MDGs are so significant that they render achieving such targets unrealistic. This is further accentuated by the declining flow of official development assistance to Africa in recent years and the rising debt burden in these countries. ECA (1999), for instance, forecasted the required GDP growth rate to halve poverty in Africa by 2015, to be about 7.2 per cent (or 4.2 per cent per capita).

Given the problems of domestic resource mobilization, the required level of external financing is estimated at about 26 per cent of GDP. This is well above the current level of official development assistance (ODA) to GDP ratio of about 12 per cent, which shows the difficulty in achieving the MDGs in Africa (see ECA, 1999). It is interesting to note that since the MDGs basically comprise social development goals, failure to achieve them is tantamount to regression in social development, equity and poverty reduction. The impacts of initial inequality on efficient growth and poverty reduction need serious consideration. Figure 8 illustrates how the responsiveness of poverty to growth (elasticity of poverty to growth) varies with initial income inequality in SSA. The figure shows that countries with low levels of income inequality need a much lower rate of per capita income growth than those with high initial income inequality to reduce poverty by half by 2015.

Figure 8:
Initial inequality and overall growth required to halve poverty by 2015 in SSA



Source: Bigsten and Shimeles (2005).

From the discussion in the preceding sections, it is noted that initial inequality in Africa is strongly correlated with the degree of openness of the economy. That said, these countries need rapid and sustained growth in order to significantly impact poverty. In fact, if countries can contain income inequality to its existing level, modest growth would be sufficient to reduce poverty by half by 2015 (see Shimeles, 2004). The issue therefore is that each country needs to consider how the interaction of trade reform and income inequality affects poverty. The contributions of trade reform to growth however, should not be the only guide used to design poverty reduction policies.

Conclusions

It has been more than a decade since world leaders committed themselves to bring about meaningful change in social development equity, inequality, and poverty at the Copenhagen Summit. An examination of the realization of these commitments shows that almost all African countries are very far from reaching their goals. Recently though, there has been a revitalization of economic fundamentals important to improving the social sectors. However, cautious optimism is required. Sustainable economic growth and development is precarious due to Africa's patterns of trade and finance, the prevalence of conflict, dependence on agriculture (the main stay of the majority of the rural population), the vagaries of nature, backward technology, and dependence on the global commodity market.

International trade, finance, and aid link Africa to the world and in particular, developed countries. These relationships are accentuated by the policy prescriptions of international financial institutions (IFIs), which are in turn, complemented by global commitments like the MDGs and by African governments themselves. SAPs and PRSPs were intended in part, to speed up African engagement in global markets through a set of polices loosely termed 'liberalization'. Trade liberalization policies were critical instruments deployed in African countries during the SAP era, and trade remains the most significant channel through which global interdependence impacts the welfare of ordinary African citizens. Justifiably, there is a need for in-depth analysis of the patterns and implications of trade liberalization polices on social development, inequality, and poverty.

Africa is effectively marginalized from global markets given its degree of trade and financial integration with the rest of the world. The high growth and investment targets and hence, external financing required to reduce poverty, makes this isolation a curse, especially in light of dwindling levels of domestic savings. Yet, its partition can also be considered a blessing because Africa has remained somewhat isolated from international financial market instability.

From a policy perspective, Africa's integration into the global financial system requires the institution of policies that promote investment flows to the continent, but also manage the extreme volatility and risks associated with such capital flows. Success in capital market liberalization in Africa requires, among other things, stronger financial sector management and institutions and capacity building. It is also very important to confront the policy dilemma and trade-offs between high flows and high volatility. Given the huge cost of bailing out countries when they are faced with financial crisis, Bhinda and others (1999) rightly noted that "Africa has no 'big brother' to facilitate a bailout in the first place." Appropriate exchange rate policy, debt management, proper financial regulation and supervision, and transparency are all necessary instruments for managing capital flows. Many of the preconditions for sustained flows of FDI to Africa rely on the structural transformation of African economies. This would have a positive effect on market size, resource discovery, and the conditions that enable high levels of growth.

In the face of the declining trend of ODA, aid effectiveness is an increasingly important policy tool, the development of which requires specific strategies for boosting capital efficiency and transitioning from aid dependency in the medium to long run. Aid dependency has long-term detrimental effects on already weakened African institutions. Policymaking, thus, needs to insulate institutions through country and regional level capacity building strategies that go beyond economic management into issues of governance. Finally, addressing the trade related problems discussed at length in this paper will be a major step toward alleviating the continent's financial problems.

The importance of the world economy to Africa, especially international trade, is significant.[9] However national governments are required to adjust to 'economic reality' and 'market discipline' in order to stimulate exports and promote foreign investment. Certain dangers are ignored, such as the 'race to the bottom', as individual countries try to bend their labour standards, environmental safeguards, and tax concessions to boost trade. Policymakers also ignore the 'fallacy of composition' inherent in the small-country assumption, causing the over-expansion of commodity supplies and declining prices.

Economic *perception* is as vitally important as economic *reality*. External economic relations need to be examined as a variable, rather than as a given. Domestic economic events become endogenous to the operation of the global system rather than simply at the behest of policymakers. This shows, on the one hand, how limited the options really are for domestic policymakers in Africa (especially if they act individually and only for short periods) and, on the other hand, the crucial importance of changing international arrangements, particularly trade and investment rules rather than aid. The global market remains extremely important to the African economy, especially given Africa's dependence on trade in a few commodities, the dominant effect of trade in the economy, and the secular deterioration and volatility of its terms of trade.

Africa's entrance into the global system has not been orderly, as can be read from its economic history, including the origins of its debt and external finance problems. As previously noted, debt issues stem from the structure of trade in general and from commodity trade in particular. The twin effects of low income and low

9 See Alemayehu (2002) for details on this.

price elasticities in developed country markets have led to declining terms of trade and high price volatility. The question then seems to be why Africa has not diversified its exports to manufactures, services, or processed raw materials, all of which offer better growth prospects. One reason may be that such a switch requires capital (infrastructure and plant) and skills (or 'human capital') that Africa does not currently possess.

What lessons are relevant for shaping the future of economic growth and development in Africa? First, research amply confirms that the debt problem is essentially a commodity problem (see Alemayehu, 2002). Efforts such as the HIPC process, which at least indicates a political commitment to act, will have little lasting effect unless export capacity and prices are raised. Second, if international flows of capital to Africa (such as aid) are envisaged, then more aid should be channelled towards small export farmers to promote exports and reduce poverty. Aid should also be accompanied by expansionary policies in order to keep exchange rates competitive. Third, Africa is highly vulnerable to changes in world interest rates and the subsequent activities of speculators because of their impact on commodity prices (the capital market effect of interest rates changes is not relevant). This implies that the construction of a new 'global financial architecture' can only be undertaken at the international level. Fourth, fiscal deficits are mostly exogenously determined by aid flows. This has important implications in terms of the need for donors to coordinate their actions in order to ensure macroeconomic sustainability, rather than leaving this task to IFIs alone (Alemayehu, 2002).

These various policy implications imply that the trade relations of Africa with developed countries need to be strengthened. The question then, is how? Improved access to developed country markets for processed primary commodities, and, in particular, the replacement of the Lomé system with better access to the European and American markets (along Everything but Arms of the EU and The African Growth and Opportunity Act of the US) would be a first and important step. Commodity price stabilization schemes are currently out of favour and would require the full cooperation of the major importing transnational corporations in order to work at all. However, this is a problem of price volatility around the trend, as well as the declining trend itself. Reducing this volatility would benefit both importers and exporters and thus should not be impossible to achieve through a properly administered buffer stock system. The market mechanism alone cannot produce this result since hedging ranges are so short, so this would have to be a form of public intervention. However, the long-term downward direction of the terms of trade is difficult. It would not matter so much if volume was increasing fast enough to raise the income terms of trade (as is happening with labour-intensive manufactures), but this is not, in fact, the case. The market for tropical commodities is oligopolistic and riddled with restrictive practices, e.g., sugar and cotton in the US and bananas and coffee in Europe. Therefore, a producers' cartel may be the only theoretically viable solution. However, in spite of the recent success of the Organization of Petroleum Exporting Countries (OPEC) in driving up oil prices, Africa is unlikely to be able to organize such a cartel given the worldwide competition in those commodities.

Africa needs to change the mix (or at the very least upgrade the quality) of its primary export products in order to compete within the foreseeable future. This requires investment, in particular, joint ventures with foreign companies, investment by domestic investors, such as firms and households, and the reversal of capital flight. More than savings, risk is the main problem, since there is plenty of capital held overseas and also plenty of liquidity within the banking system. These steps cannot be undertaken by each African country in isolation but rather, requires an international agreement on investment rules and stabilization of commodity prices; in other words, the *orderly* insertion of Africa into the global market.

This process, the orderly insertion of African in the global market, is not a smooth one, as illustrated by the outcome of liberalization policies and the enormous distributional consequences in the short

to medium run. The impact of trade liberalization on household welfare varies considerably from country to country, and depending on the circumstances, it could improve social development or exacerbate existing poverty and inequality. Destitution and inequality are more likely to worsen in the presence of weak domestic industries and institutions, low degrees of inter-sectoral labour mobility, weak financial institutions, frequent policy reversals, and the challenging market structure of the tradable and non-tradable sectors. Thus, the design and implementation of trade polices requires taking all of these issues into consideration.

The impact of trade liberalization on welfare depends to a certain degree on the state of income and poverty distribution in Africa. Existing income inequality is relatively high in most African countries, which makes the distributional consequence of trade policies a serious matter. Cross-country evidence shows the positive correlation between trade policies and income inequality through the channel of land abundance (e.g. Fischer, 2000), and through political economy factors for Africa (e.g. Easterly, 2002). In some cases, trade liberalization could also worsen income distribution by reducing the demand for unskilled labour. A related issue is the impact of trade reform on intra-household inequality and gender disparity. Even if the aggregate welfare of a household increases, it is possible for some measures of trade reform to increase intra-household inequality through changes in employment opportunities between male and female household members (Winters, 2000) as well as through changes in the composition of the whole workforce (UNDP, 2003). Sectors such as textiles may rapidly expand in the wake of trade liberalization, which in Africa, are mostly female-intensive (Blackden, 2003). Depending on the relative wages in these sectors, overall inequality tends to rise even if more women are employed in the economy.

The positive effects of trade liberalization can be enhanced if policymakers act at the right time (Winters, 2000), and institute basic macroeconomic stability policies (Bhagwati and Srinivasan, 2002). For instance, inflationary trade policy measures can be controlled with appropriate macro-stabilization policies. These stabilization policies though, in most cases hurt the poor. Thus, it is important to decide the appropriate timing of the trade reform in order to maximize gains and minimize the adverse effects on the least well-off.

Integrating poverty diagnostics with trade policies can minimize the negative effects. Poverty mapping assists in development of trade reforms that benefit the poor or minimize their welfare loss. Poverty decomposition along sectoral lines also provides analytical tools to evaluate who benefits from trade liberalization, thus helping policymakers devise the most appropriate and effective intervention strategies on behalf of the poor (Kanbur, 2000).

Finally, ownership of policies, such as PRSPs, is crucial. In order to realize the ideals of the Social Summit, strategies must be designed in a way that ensures the sustainability of recent gains in the macroeconomic sphere and their integration with social objectives. This will take the form of:

- Ensuring political stability and designing peaceful mechanisms of conflict resolution
- Pursuing macroeconomic stability by emphasizing the savings–investment-export nexus, and policy ownership
- Investing in human capital formation and institution building
- Addressing each country's major structural problems such as diversification and dependency

Progress on each of these fronts is a way to bring about social development equity, poverty reduction, and equality. The international community can and should play a significant role in attaining these important objectives.

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Annex 1a.
Shares of export values by region, 1965-2001

Region	Fuels, Minerals and metals	Other primary commodities	Total primary commodities	Manufac-tured exports	Fuels, Minerals and metals	Other primary commodities	Total primary commodities	Manufac-tured exports
	1965				**1970**			
World	15	26	41	59	16	20	36	64
Low & Middle Income Economies	30	53	83	17	37	35	72	28
SSA	34	58	92	8	37	46	83	17
East Asia & Pacific	17	58	75	25	22	45	67	33
South Asia	6	57	63	37	9	44	53	47
Middle East & N. Africa	-	-	-	-	74	18	92	8
Latin America & Caribbean	43	50	93	7	43	45	88	12
	1980				**1990**			
World	17	18	35	65	17	9	26	74
Low & Middle Income Economies	38	30	68	32	25	21	46	54
SSA	36	52	88	12	35	45	80	20
East Asia & Pacific	23	32	55	45	12	20	32	68
South Asia	8	38	46	54	6	23	29	71
Middle East & N. Africa	91	3	94	6	82	3	85	15
Latin America & Caribbean	43	37	80	20	3	63	66	34
	2001							
World	10	12	22	78				
Low & Middle Income Economies	25	15	40	60				
SSA	39	28	67	33				
East Asia & Pacific	9	11	20	80				
South Asia	6	16	22	78				
Middle East & N. Africa	82	4	86	14				
Latin America & Caribbean	25	26	51	49				

Source: Based on World Bank, World Development Report, various issues.

Notes: Other primary commodities include Food and Agricultural raw materials. Where, Food- comprises the commodities in SITC sections 0 (food and live animals), 1 (beverages and tobacco), and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels); Agricultural raw materials- comprises SITC section 2 (crude materials except fuels) excluding division 22, 27 (crude fertilizer and minerals excluding coal petroleum, and precious stones), and 28 (metalliferous ores and scrap) (World Bank (2003d).

Annex 1b.

Export share of total exports of three principal commodities in SSA countries

Countries	1970	1990-1992	1997-1999	Three leading commodities in 1997-1999
Angola	62.80	96.3	71.0	Fuel, diamond sorted, coffee
Benin	59.90	25.4	37.9	Cotton lint, cotton seed, oil of palm
Botswana	n.a.	78.8	73.2	Diamonds sorted, bovine meat, hides and skin
Burkina Faso	n.a.	50.3	41.5	Cotton lint, sesame seed, hides and skin
Burundi	94.70	86.3	88.9	Coffee, tea, sugar
Cameroon	n.a.	74.3	44.1	Fuels, wood non-coniferous, cocoa
Cent. African Rep.	74.30	64.5	73.2	Diamonds sorted, coffee, wood non-coniferous
Chad	90.80	68.0	52.4	Cotton lint, live animals, crude materials (inc. flowers)
Congo	67.40	94.5	85.8	Fuels, wood non-coniferous, sugar
Cote d'Ivoire	77.30	50.7	60.0	Cocoa, fuel, coffee
DR Congo (ex-Zaire)	n.a.	86.6	86.3	Diamond sorted, coffee, wood non-coniferous
Djibouti	n.a.	1.6	7.2	Sugar, crude materials, fishery commodities
Equatorial Guinea	90.44*	62.5	89.1	Fuel, wood non-coniferous, cocoa
Ethiopia	79.50	74.1	79.4	Coffee, hides and skins, sesame seeds
Gabon	82.90	93.2	93.2	Fuels, wood non-coniferous, Manganese ore
Gambia	98.90	25.6	19.0	Ground nuts, fishery commodities, oils of ground nuts
Ghana	88.30	69.2	61.9	Cocoa, diamond sorted, gold
Guinea	n.a.	61.6	59.9	Bauxite, alumina, fishery commodities
Guinea-Bissau	83.47**	81.6	75.2	Nuts, fishery commodities, cotton lint
Kenya	60.50	49.6	46.1	Tea, coffee, fuels
Lesotho	73.00	9.9	3.0	Wool, greasy, food wastes
Liberia	90.60	35.9	14.6	Natural rubber, wood non-coniferous, fuels
Madagascar	57.10	33.4	54.2	Fishery commodities, hides and skins
Malawi	79.50	86.5	71.0	Tobacco, tea, sugar
Mali	65.10	73.3	45.1	Cotton lint, live animals, oils of ground nuts
Mauritania	96.50	75.6	72.4	Iron ore and concentrates, fishery commodities, fuel
Mauritius	97.20	30.6	23.3	Sugar, fishery commodities, crude materials
Mozambique	36.70	54.5	42.9	Fishery commodities, nuts, wood non-coniferous
Namibia	n.a.	28.7	72.1	Diamond sorted, fishery commodities, live animals
Niger	30.00	95.7	93.7	Uranium, live animals, tobacco
Nigeria	83.50	95.0	78.2	Fuels, cocoa, natural rubber
Rwanda	93.40	85.6	69.6	Coffee, tea, hides and skins
Senegal	53.70	56.8	41.7	Fishery commodities, fuel, oils of ground nuts
Seychelles	53.00	81.2	35.0	Fishery commodities, fuels, cinnamon
Sierra Leone	52.20	17.0	26.6	Fishery commodities, coffee, cocoa
Somalia	87.60	56.1	41.2	Live animals, banana, fishery commodities
Sudan	87.80	27.6	28.7	Sesame seed, crude materials (incl. Flowers), coarse grain
Swaziland	n.a.	28.6	23.2	Sugar, fruits prepared , other citrus fruits
Tanzania	43.90	66.9	47.5	Fuels, tobacco, sugar
Togo	83.80	66.1	61.8	Na. Ca. phosphate, cotton lint, coffee
Uganda	86.90	65.8	65.9	Coffee, fishery commodities, crude materials (incl. flower)
Zambia	97.10	77.2	49.6	Refined copper, sugar, cotton lint
Zimbabwe	n.a.	40.7	32.8	Tobacco, cotton lint, gold
Sub-Saharan Africa		74.6	68.5	

Source: UNCTAD (1979); UNCTAD (2003), Commodity Yearbook, except for SSA, which is World Bank (2002), *World Development Indicators*, CD Database.

* Two commodities.
** One commodity.